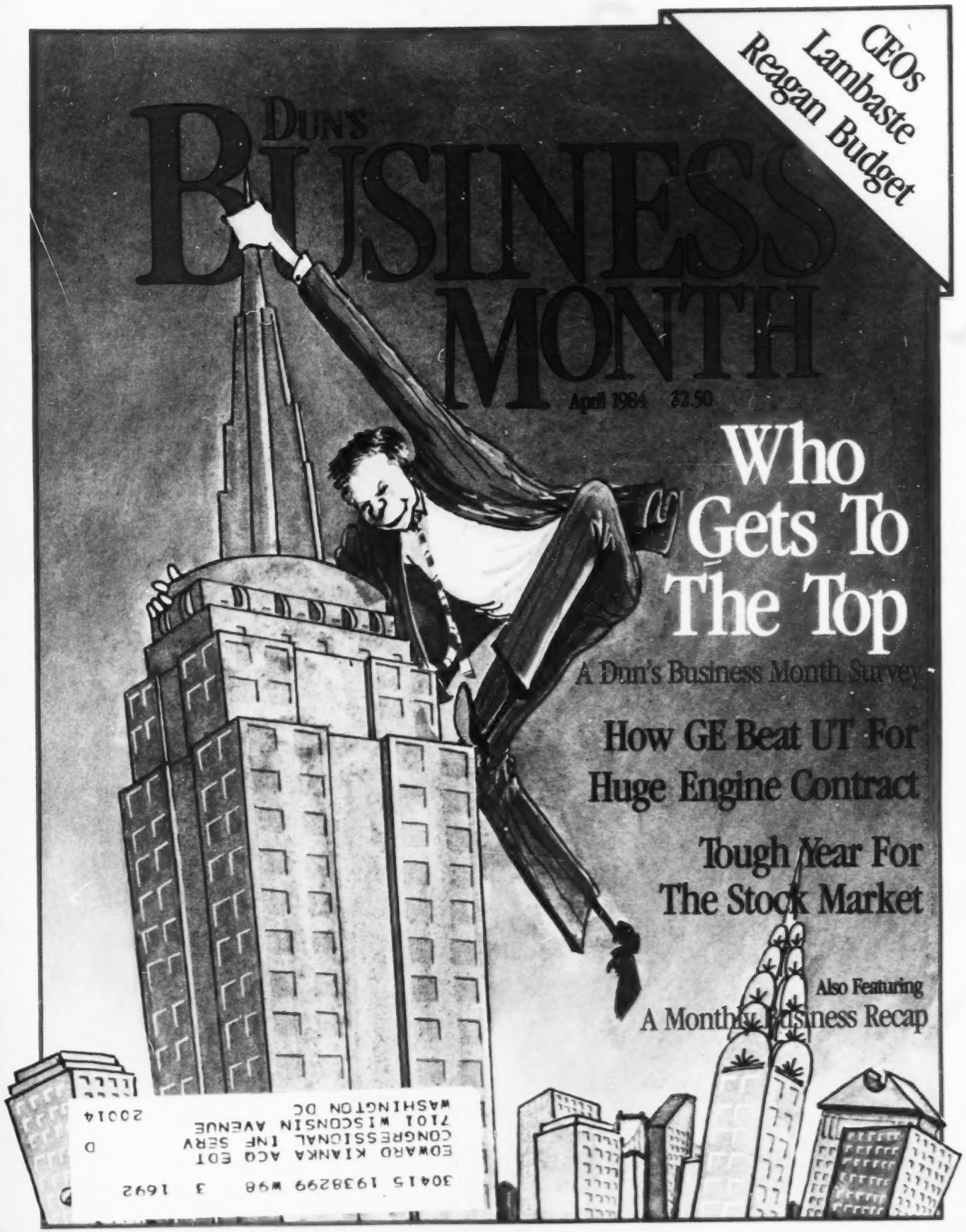
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The Long Haul To the Top

A DBM survey reveals that in picking CEOs, companies are returning to the old values of long service and knowledge of an industry.

The time-honored route to the summits of corporate America—hard work, loyalty to the company and decades-long staying power against competition—remains intact. Be it a tradition or an anachronism, the old boy industrial network provides the vast majority of chief executive officers, according to a DUN'S BUSINESS MONTH survey of 237 of the largest U.S. corporations.

The succession process, which executives admit is far from precise at many major companies, seems to reflect the old-fashioned value of paying one's dues to an industry. The trends toward appointing financial, manufacturing, legal or marketing men as CEO may come and go, but there is an undying allegiance in corporate America to the man who puts in his years for one industry and, more preferably, one company. The DBM survey reveals that seven out of every ten of today's crop of chief executive officers have served their companies at least 20 years, more than half their working lives; one-quarter have racked up 35 or more years with their respective firms. Two-thirds of the survey respondents have worked in only one industry, and more than 40% for just one company (*see charts, page 57*).

Not too long ago, the mobility of CEOs among companies and industries was more popular, reflecting a societal appreciation of the creativity and innovation presumedly spawned by diverse backgrounds and experience. This trend reached a peak in the 1960s, when fewer than 50% of chief executives could claim more than 20 years with the companies they were running.

But that trend began to reverse in the 1970s. As American economic fortunes moved from bad to worse during two severe recessions in the past

Reversing a trend

ten years, the pendulum of management selection has swung increasingly toward old-style solutions to current industrial woes. By the Eighties, corporate America had decided that creativity could be sacrificed for the competence supposedly produced by total immersion in an industry, and holding too many jobs during a career became a detriment to an executive's upward mobility.

It is a harkening back to the 1950s period of American industrial supremacy, according to Michigan State University management professor Eugene Jennings: "We are going back to the motherhood that nourished us so well." Adhering to a seniority system in management selection stems from a need for security and predictability as well as from a search for competence, according to New York University Business School Dean and former American Can CEO, William May. Companies know how to work with executives reared within their ranks, who understand corporate cultures and how to survive and grow within them, May says. "The guy from the outside has to be 133% better before a company should consider recruiting him as a top-level executive," he adds.

Not everyone approves of the current overwhelming preference for insiders. Former Bendix CEO William Agee blames inbred, insular leadership for many of the bad management decisions made in the past decade, when overoptimistic expectations of long-term growth led many companies to maintain high production rates, invest in unnecessary capacity and fail to take a hard-line on ever-increasing production costs. Many of these decisions were made in the mature in-

dustries by executives who were industry offspring," he says. "You see this in steel, metals, rubber and other smokestack industries. It was not obsession with short-term results that did them in, but the inability to step back and make a fresh appraisal of the expectations for growth and what trends would have an increasing impact on their industries."

Richard Pascale, author of the 1981 best-selling book, *The Art of Japanese Management*, agrees that the danger of producing an inbred, myopic management exists when a company is committed to promoting from within. But the problem, according to Pascale, stems from the institutional fix of a company and not necessarily the seniority of its management. "A company must be obsessive about all facets of its operations if it is to stay in touch with the marketplace," Pascale says, "It must constantly question the way things are done and listen to customers."

In companies that are "obsessive," promoting from within can still produce a senior management that is self-questioning and receptive to change. "You cannot depend on an outsider to turn around a company," he says.

Whatever the theoretical pros and cons, fewer and fewer companies today search farther than their own backyards for CEOs. Only a major tremor in a company's foundations prompts it to look outside to find a leader or a capable Number Two who can be groomed for the top job. The executive search may reflect the firm's own failure to mold competent potential successors, as it was with RCA Corp.'s recent recruitment of Robert Frederick, a former General Electric man, as president. The task of rebuilding the succession order was CEO Thornton Bradshaw's primary goal for his tenure. Bradshaw, formerly Number Two man at Atlantic Richfield and an outside member of the RCA board, tried to pick up the pieces of a shattered management after the 1981 dismissal of CEO Edgar Griffiths, who became known for being a hard man to please when it came to seconds-in-command.

Outside recruiting can also be generated by a disenchantment with the current chief executive, resulting in a premature vacancy at the top. In the stormy days of the recent recession, dismissals or "urged" resignations became acceptable alternatives for many boards of directors, who normally

"Urged" resignations

attempt to avoid the unsavory publicity that accompanies such acknowledgments of a company's troubles. Between 1974 and 1984, the average annual number of top-level resignations—most often prompted by failure to cure company ills or to prevent them—more than doubled from 4.1 to 9.8, according to statistics compiled by Professor Jennings. The list of fallen leaders grew with names like Robert Abboud of First Chicago Corp., Archie McCardell at International Harvester, Griffiths of RCA, Morley P. Thompson at Baldwin-

United, John Riccardo of Chrysler and Roger Anderson of Continental Illinois.

Not only is the frequency of internal tremors increasing, companies also must cope with mounting external assaults stemming from deregulation and the internationalization of markets.

Whether hurt by internal or external forces, floundering companies frequently look to outsiders to make their hard decisions to redeploy assets, renegotiate labor contracts or sack executives. Recruitment of C. Edward Acker at Pan American, McCardell at International Harvester, Lee Iacocca at Chrysler and John Breen at Sherwin-Williams are examples where problems of the moment inspired company choices.

Breen joined Sherwin-Williams in 1979 at the age of 45 as its chief executive officer. He had been brought in from battery-maker Gould Inc., where, after five years, he was an executive vice president. His assignment: to turn around losses that forced the world's largest paint maker to cancel its dividend at the end of 1977. Breen followed on the heels of an industry man, Walter Spencer, who headed Sherwin-Williams between 1971 and 1978, and the two-year transition leadership of a company director, William Fine. Breen reorganized top management, hired new middle-level managers, dropped losing product lines and attacked excessive administrative and production costs. The result of Breen's leadership was the desired turnaround. The company's earnings jumped from $1.06 a share in 1980 to $2.32 last year. Breen also restored the dividend in 1979 and doubled it by 1983.

All recruitment stories do not have a happy ending, as demonstrated by the case of Archie McCardell, the second-in-command at Xerox who was lured to Harvester in an attempt to stage the proverbial turnaround. Inexperienced in labor relations, McCardell embroiled the farm equipment company in massive labor disputes that led to problems with the National Labor Relations Board. In addition, he was never able to sell enough equipment to reverse the company's failing financial fortunes.

Changes in the marketplace due to deregulation have shifted the focus at many firms.

The changes in the marketplace due to deregulation and other developments have shifted dramatically the focus at many corporations, in most cases calling executive skills into play that were at other times downplayed. For deregulated industries like telecommunications, marketing men are gaining prominence in succession schemes, and speculation has already begun about the role of marketing skills in the choice of a successor to Charles Brown at AT&T, who will reach 65 in two years. Ten years ago, Ma Bell recruited marketing expert Archie McGill, a former IBM vice president who was then running his own telecommunications firm. McGill was to teach AT&T executives the realities of competition. But when the dust settled from a recent reorganization, McGill was left empty-handed in terms of a top-rung post in the parent company and quit. Those who follow the company believe McGill still was running his AT&T division the IBM way, which didn't particularly suit the AT&T corporate culture.

Rise of marketing men

Although none has become chief executive thus far, marketers are making rapid advancement through the ranks of the financial services industry, which has seen a dramatic proliferation of products, services and competition in the past ten years. The larger and more foresighted of the financial institutions began looking to the consumer goods companies for executives with advanced marketing skills, says John Mirtz of executive recruiter Byrnes Elsom Mirtz Morice. "Some of the placements were successful; many were not, because the executives from the packaging goods industries were kind of fish out of water," he says. "But the executives who stayed are moving up the line."

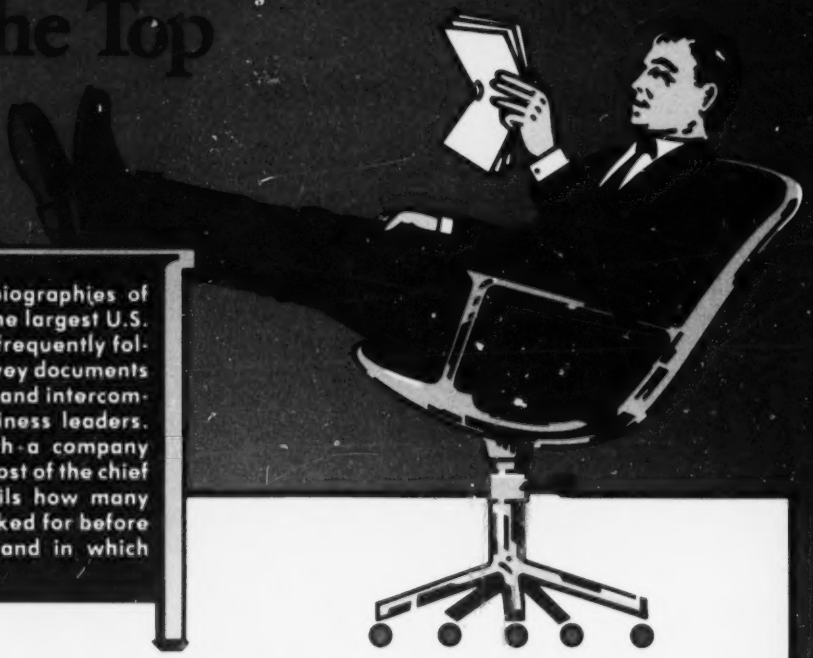
Citicorp was among those with the most aggressive recruiting program for marketers, and one of its biggest suppliers was General Foods. Currently, Citicorp's senior vice president of product development, Pei Chia, vice president of product development Richard Evans and executive vice president Richard Braddock are General Foods alumni; so is the head of American Express gold card services, Frank Partel, and Bank of America senior vice president Charles Rand. The head of Citicorp's international division, Richard Kovacevich, is a General Mills alumnus.

Mirtz believes it is only a matter of time before marketers move to the very top level. "It won't be apparent in the next five years, perhaps. But after that, these people will be reaching the highest level of management," he says.

The airlines industry is another deregulated industry that has a greater appreciation of those with market training. Because of the mixed bag of woes facing the industry, which included skyrocketing costs, financial men like Pan Am's C. Edward Acker have been popular as well. But at American Airlines, President and Chief Operating Officer Robert Crandall is a marketing man. This emphasis on marketing has been even more apparent at the smaller, regional airlines like New York Air and Midway, Mirtz says.

Young industries, such as the personal computer industry, share the same need for marketing men. Companies that technologists founded ten years ago in the basements of Cambridge, Massachusetts, have grown enough to bump heads with IBM and Texas Instruments. The largest and most competitive of this generation of companies are reaching out to the consumer goods firms to find marketing leadership. For Apple, it was John Sculley of PepsiCo; for Atari, James J.

The Men at the Top



DUN'S BUSINESS MONTH culled biographies of chief executive officers at 237 of the largest U.S. companies to determine the most frequently followed route to the top job. The survey documents the age, educational backgrounds and intercompany mobility of the nation's business leaders. Longevity in an industry and with a company seems to be the common link for most of the chief executives. The survey also details how many firms current chief executives worked for before joining their present companies and in which departments they hung their hats.

Age

18-45	0
45-50	6.75%
51-55	21.5
56-60	
61-65	
65+	6.75

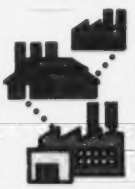
Education

BACHELOR'S	
Engineering	29.1
MBA	22.8
LAW	12.7
OTHER	13.1
NONE	1.7

Years With Company

LESS THAN 3	1.7%
3-12	14.1
13-20	12.7
20+	
35+	24.5

Worked For Other Companies



NONE	
ONE	26.6
TWO	12.7
THREE	7.2
FOUR+	9.3

Career Path

RESEARCH	9.6%
PRODUCTION	
MARKETING	20.8
FINANCIAL	22.5
LEGAL	8.8
OTHER	2.5

Worked in One Industry

Managed Operating Division

Worked Overseas

What Directors Seek in CEOs

What qualities do directors look for when choosing a chief executive these days? Here is what several of them told DUN'S BUSINESS MONTH:

■ "Above all, the CEO must have the ability to relate to people, both within the organization and outside. He is no longer just running plants and selling goods. Today, he is a quasi-public official, who needs as much skill in dealing with people as any Senator."—IRVING SHAPIRO, former chief executive of E.I. du Pont de Nemours & Co., now a practicing lawyer and a director of Citicorp, IBM, Boeing and Hospital Corp. of America.

■ "More than ever, his job is to be Mr. Outside, while the chief operating officer runs the store."—GARDNER HEIDRICK, veteran recruiter and director.

■ "He must be able to delegate and not lose control. To do that, he must organize the whole management so that everybody knows his own responsibilities. He must back his people to the limit as long as they produce. But when they fail—bingo!"—J. KEITH LOUDEN, a veteran of 26 boards.

■ "He recruits well, trains well, delegates authority, establishes a simple but sound system of rewards and penalties, a simple but sound system of evaluation and communication, challenges people to do things and then gets out of the way."—DONALD MACNAUGHTON, former CEO of Prudential Insurance Co., now chairman of Hospital Corp. of America and a director of Exxon, Johnson & Johnson and Prudential.

■ "You want a man with a track record of successes and failures, not a staff man who has just made recommendations for others to carry out."—ROBERT LEAR, former CEO of F&M Schaefer Brewing Corp., and now a member of several boards and a visiting professor at Columbia Business School.

■ "He must first of all be a leader and a communicator. He must be able to measure the performance of others objectively. He must devise a corporate strategy, must serve as a trustee of the shareholders' assets and must recognize and accept change."—GERALD HILDEBRANDT, a veteran of 25 boards.

■ "He should be a generalist, with a liberal arts background rather than an MBA. Business school education is all right, but it becomes mostly irrelevant twenty years later."—E. PENDLETON JAMES, former director of staffing for the Reagan White House, now a recruiter of CEOs and directors and himself a member of several boards.

■ "If it comes to a choice between intellect and street sense, I'd take the latter every time. Of course, the best CEO of all is the one who combines the two."—WILLIAM T. FRENCH, director of Burlington Industries and other companies.

Morgan, a former Philip Morris executive.

For the top U.S. moneymakers, however, marketing executives don't hold the appeal they did in the late 1950s and early 1960s. DUN'S survey shows marketing to be the initial training area for 20.8% of the current CEOs—outpaced by those with backgrounds in finance (22.5%) and manufacturing and operations (35.8%). "The large industrials are more mature industries," says Agee, explaining the preference. "These companies need executives who can deal with the problems of redeployment of assets, diversification, increasing productivity and maximizing profits."

Columbia University Business School Dean John Burton believes the number of financially oriented executives should rise in the next several years because of industry's need to grapple with constantly fluctuating inflation rates. Indeed, with its heavy emphasis on finance, the MBA degree is the most popular advanced degree with today's chief executives; the survey shows 22.8% holding one.

Legal backgrounds are not as much in demand as they were ten years ago. Only 8.8% of survey respondents started in corporate legal services and 12.7% hold law degrees, less than hold masters or doctorates. But when legal minds are present, legal solutions to problems are often selected. Witness the case of Manville Corp. and its 33-year veteran John McKinney, who headed Manville's legal services between 1971 and 1976 and is now its CEO. When Manville faced substantial financial losses from claims of asbestosis victims, the company sought its relief in the courts through a Chapter 11 reorganization.

With promotion from within the general rule, it would appear that corporate America should have a relatively well-developed program for identifying and grooming viable candidates for the top spot. But the unfortunate consensus of corporate officers and executive recruiters alike is that too many companies have not adequately developed systematic testing and career paths for talented, aspiring executives. Too many corporations "churn out uninspired, lackluster or mediocre appointments to the top post," says Robert Lear, former chairman of the F&M Schaefer Corp., member of several boards of directors and executive in residence at Columbia University.

Uninspired appointments

Lear argues that companies often neglect the early training of talented young executives with potential for advancement. Thus in the end, says Lear, a company may wind up with top people who do not have an adequate comprehension of the basic business or have mostly a specialized knowledge of one area of a corporation.

There are, on the other hand, some companies with outstanding systems for bringing up executives. Among them: IBM, Xerox and General Elec-

tric. "If you work at General Electric, you can't get away without being aware that management succession is a big thing," comments Lear, a close friend of the current GE chief executive John Welch. "It is something discussed from the day a new young manager arrives."

And the GE system served the company well when it was ready to select a new chief executive in 1981. There were six acceptable contenders for leadership of the company, all of whom had had responsibility for a separate operating sector. In the end, one was elected chairman, and two became vice chairmen. The three who weren't chosen left GE to take Number One or Two spots at other large corporations. "Having so many qualified candidates was a luxury, one which most companies don't ever enjoy and one which many just can't afford," concludes one GE executive.

Managing a separate operating division is an integral part of the succession scheme at GE, a requirement made possible by the company's extensive diversification and its many independent operating units. And while many major corporations don't have as much opportunity to give an executive a chance to run his own show, a proven track record in an operating division increasingly is a requirement for reaching the top. According to DBM's survey, 73% of the chief executive officers installed since 1980 have managed a separate operating division during their career, versus 34.2% for those elected before them.

When a company doesn't have a qualified heir apparent, the problem is not always with the system of succession, but with the man who controls it. Many chief executives facing retirement find it hard to give up the power, explains Max Ulrich, president of executive searchers Ward Howell Associates. Many also have difficulty sharing and delegating power to their seconds-in-command—a must if these men are ever to be prepared to handle ultimate responsibility. "What comes *aprés moi* is a subject many chief executives won't deal with seriously unless really pushed by their boards," Ulrich says. "In a way, it's like planning your own funeral."

"Aprés moi is a subject many chief executives won't deal with unless pushed by their boards."

A sitting CEO's reluctance to give up the job was the cause of the resignations in the last year of Thomas Vanderslice, in line for the top job at GTE, and Warren Hayford, who was promised the leadership at General Tire & Rubber Co. Sources say that both Vanderslice and Hayford had been given a timetable and commitment that the top spot would be theirs. And in both cases, the current CEOs—Theodore Brophy at GTE and M. Gerald O'Neil at General Tire—changed their minds about retiring.

"Because of age and the management structure of companies, executives only get one shot at a company to become its chief executive. After a certain age, only a twist of fate can elevate an executive," comments a friend of Hayford. "These are both men with an overweening desire to be a CEO. It doesn't really matter to them any more of what company."

When a company's founder or prime mover is involved, the succession process can also be disrupted—and a surprising nine of the top 100 U.S. industrial companies are still run by their founders. This is mostly because of the number of years they hang onto their creation. For instance, Armand Hammer, the man under whom Occidental Petroleum grew into a billion-dollar oil company, is 86 years old and has led the company for 27 years. Comparable spring chickens, J. Peter Grace of W.R. Grace and Ben Heineman of Northwest Industries, are both hovering around 70 years old and show no signs of stepping down. In fact, although Heineman was scheduled to quit at 70, he now indicates he could retain control of Northwest Industries for up to three more years. Apparently, this is because crown prince, 37-year-old President William Beasley, is still very young by chief executive standards. Meanwhile, Grace is the longest-lived CEO, retaining the position since 1945.

Hanging on

One question raised by the tenacity of some CEOs concerns the appropriate length of tenure in the top spot. Unlike U.S. Presidents, there are not limits on the terms of CEOs, except parameters that they choose to set. In past years, the average term had been about eight years. "There is a natural life to every institutional job," says George Shinn, former First Boston Corp. chairman. "Five years as CEO is probably too little to accomplish any major strategic changes or make an imprint. But anything more than ten years is probably too long."

There is mixed opinion about whether chief executives will get older or younger. Demographically, the next five years portends a younger group because of the baby boom crush beginning to percolate into top management levels. But DBM's survey indicates that the vast majority of current CEOs—almost 72%—are over 55 years old, and the need to demonstrate a proven track record before promotion almost necessitates a longer on-the-job career.

U.S. management selection philosophy, like some of the country's politics, bears the scars of a volatile, unforgiving economy. According to the experts, the choices of executives in the 1980s reflect old-fashioned values and a desire for stability. This search for stability is a worthy one, says Columbia's Burton. "We are looking ahead at a far more competitive environment. Companies are hoping to make fewer mistakes with the people they choose to lead them, and there is a recognition that companies that built from within have had a better record." The important thing to avoid, according to Burton, is building an institutional structure that mandates any one route as the only route to the top.

—PAT WECHSLER

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(2/29/84) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$ 18.95/share	$ 9,668	$11,009
per cent change		−3.32%	+10.0%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$ 96.875	$ 9,693	$ 8,964
ACCUMULATED INCOME		$ 97	$ 1,087
TOTAL		$ 9,790	$10,051
per cent change		−2.1%	+ .5%
Money Market Fund	8.72%	$10,069	$10,876
per cent change		+ .69%	+8.7%
Gold (Krugerrands)	$ 418.75/oz.	$10,601	$ 9,946
per cent change		−6.0%	− .5%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$ 80,600	$82,700	$79,300
per cent change		−9.7%	+ 9.8%
New House	$101,600	$92,900	$88,400
per cent change		+9.1%	+ 8.7%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

achieving that goal in a market so heavily dominated by IBM, according to technology specialists.

In a more recent deal, Hybritech Inc., a young biotechnology firm that is developing diagnostic kits, says in its offering memorandum that investors can anticipate an ultimate return of 4.5 times their investment by 1994. But an E.F. Hutton tax-shelter specialist claims the company will have to generate $4.5 billion in revenues by then to make good on that estimate. "It could happen," he says, "but how many success stories of that magnitude have you heard lately?"

At the very least, backers of R&D projects should recognize that they might have to wait much longer than anticipated for any returns. A case in point: Lear Fan Ltd., the successor to Lear Avia Inc., which was founded seven years ago by the late William P. Lear to develop a new lightweight turboprop corporate aircraft. Buyers are still waiting for the first deliveries of the plane, which are now nearly two years behind schedule; and backers who invested $20 million in an R&D partnership are still looking for their first payout.

Both industry and the federal government are pushing RDLPs as an effective way to fund high-risk advanced technology. Some prognosticators expect these funds to overtake conventional venture capital deals as a financing vehicles for young companies by the end of the decade. And the Commerce Department is actively encouraging their use by larger high-tech companies.

Thus, advocates worry that publicity over project failures or abuses of investor trust could seriously retard the growth of RDLPs—or at least create a groundswell of opinion demanding increased government regulation, which would probably reduce their allure to investors. Two lawsuits are already in the works: A group of 180 investors are charging Storage Technology with fraud and demanding recovery of their $10.6 million investment plus tripled damages; and brokerage firm Bateman Eichler, Hill Richards, which organized a partnership to finance R&D at four companies, is suing one of them, Anderson Jacobson Inc., for $8.8 million for changing the direction of the research project without authorization. "The people in this business must be careful not to kill the goose that lays the golden egg," Evans-Freke warns.

Some recent trends do point to an improving environment for investors. For one thing, brokerages and venture-capital firms are offering more diversified partnership deals. Prudential Bache, for example, has set up an investment fund called Pru-Tech, which raised $25 million late last year to finance projects at four separate companies. And venture capital firm Technology Funding has two funds, Software I and II, which together have attracted $18.5 million to back projects at more than twenty companies. By mixing different kinds of projects with different payout periods, these investment pools aim to minimize the investors' risks.

In addition, smaller deals are being offered, which limits the exposure of investors and should also improve their returns. Compared with the $50 million-and-up deals of a couple of years ago, three recent offerings from major companies—Cummins Engine, Emerson Electric and Control Data—were for $30 million or less. Likewise, a number of recent offerings require a minimum investment of only $5,000 per unit. And a growing number of companies are offering investors royalties or the buy-back price in the form of company stock rather than cash, which should turn out to be more profitable in many cases, high-tech analysts believe.

Whether or not these developments take hold, it will probably be the prudence of investors that makes the difference. "The quality of R&D partnerships will go up," says Lansing Felker, director of the Commerce Department's Industrial Technology Partnership Program, "if investors refuse to invest in the poor-quality deals." —THOMAS J. MURRAY